



NEW YORK AND HONDURAS ROSARIO MINING COMPANY

86th ANNUAL REPORT 1966

NEW YORK AND HONDURAS ROSARIO MINING COMPANY

DIRECTORS

SAMUEL R. MILBANK, *Chairman*
JULIAN B. BEATY, SR.
ALLAN HOOVER
DR. J. RALPH JACOBY
HERBERT A. KAUFMANN
LLOYD M. McMILLEN
ROBERT M. REININGER
GEORGE W. TOWER
RICHARD H. VALENTINE

OFFICERS

ROBERT M. REININGER, *President*
SAMUEL R. MILBANK, *Chairman of the Board of Directors*
HOMER S. ANDERSON, *Vice President, Engineering*
WILLIAM P. MORRIS, *Vice President, Mining*
DAVID L. MOORE, *Vice President, Exploration*
EDWARD L. VICKERS, *Treasurer*
GERALD E. McDANIEL, *Secretary*
JULIAN B. BEATY, SR., *Assistant Secretary*

Executive Office Mine Offices

20 Exchange Place, New York, New York 10005
New York and Honduras Rosario Mining Company
Minas El Mochito
Apartado 502, San Pedro Sula, Honduras, C. A.
Rosario Exploration Company—Bruneau Mine
P. O. Box 2230, Chibougamau, P. Q., Canada
Cía. Minera Suriana, S. A.—Huatla Mine
Huatla, Morelos, Mexico

Exploration Offices

Rosario Exploration Company
404 First Security Bank Building, Boise, Idaho
317 Korber Building, Albuquerque, New Mexico
P. O. Box 17030, Rincón Branch, Tucson, Arizona
620 Cathcart Street, Montreal, P. Q., Canada
New York and Honduras Rosario Mining Company
Agencia Rosario, Tegucigalpa, D. C., Honduras, C. A.

Transfer Agent Registrar Auditors General Counsel

CHEMICAL BANK NEW YORK TRUST CO., NEW YORK, N. Y.
IRVING TRUST COMPANY, NEW YORK, N. Y.
ERNST & ERNST, NEW YORK, N. Y.
REEVES, TODD, ELY & BEATY, NEW YORK, N. Y.

Cover design: *The ticker symbol NYH represents the New York Stock Exchange's listing of the Company's stock August 18, 1966.*



Robert M. Reininger, President

PRESIDENT'S REPORT

*To the Stockholders of
New York and Honduras Rosario Mining Company:*

1966, our eighty-sixth year of mining operations, recorded a continuation of financial progress for your Company. Mine production was further expanded in the latter half of the year. The increased metal production was substantially offset by lower lead prices, increased exploration costs, and a reduction of oil and gas income, with security profits resulting in the gain in net income after taxes.

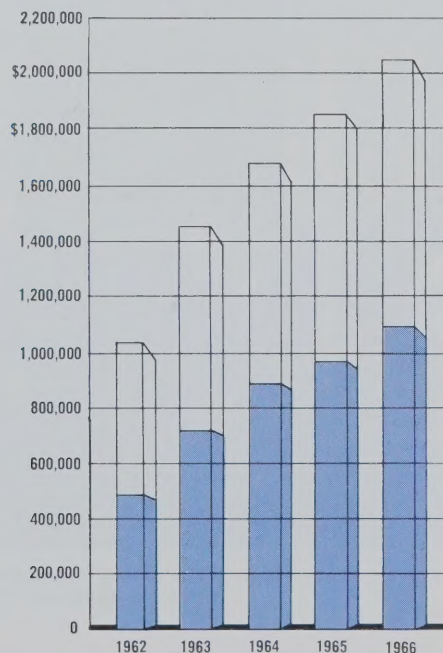
Net income for 1966 was \$2,017,103 or \$1.77 per share on the basis of 1,140,001 shares, which includes the 3 per cent stock dividend paid January 20, 1967. The earnings represented a gain of 10 per cent over the net income of \$1,831,789 or \$1.61 per share on the same basis for 1965. A profit of \$341,437 was realized from the sale of securities in 1966 as compared with \$44,132 in 1965.

Cash dividends declared for the year 1966 were 95 cents per share, compared with 87 cents per share in 1965. In addition, a 3 per cent stock dividend was declared in each of these two years.

Your Company's common stock was admitted to trading on the New York Stock Exchange on August 18, 1966.

NET EARNINGS AND DISPOSITION

REINVESTED DIVIDENDS



HIGHLIGHTS

	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>
Income Summary					
Production income	\$9,729,000	\$9,289,000	\$7,799,000	\$6,708,000	\$5,220,000
Earnings including special items	\$2,017,000	\$1,832,000	\$1,682,000	\$1,454,000	\$ 991,000
Income per share	\$1.77	\$1.61	\$1.48	\$1.29	\$.88
Cash dividend per share	\$.95	\$.85	\$.78	\$.65	\$.44
Stock dividend	3%	3%	3%	4%	4%
Balance Sheet Summary					
Current assets	\$5,280,000	\$5,346,000	\$5,018,000	\$4,730,000	\$3,793,000
Current liabilities	\$2,340,000	\$2,113,000	\$1,726,000	\$1,311,000	\$ 740,000
Working capital	\$2,940,000	\$3,233,000	\$3,292,000	\$3,419,000	\$3,053,000
Stockholder equity	\$8,934,000	\$7,991,000	\$7,127,000	\$6,294,000	\$5,485,000
Book value per share	\$7.84	\$7.01	\$6.25	\$5.52	\$4.81
Capital expenditure	\$ 903,000	\$ 606,000	\$ 746,000	\$ 382,000	\$ 442,000
General					
Shares outstanding	1,140,001	1,106,622	1,073,004	1,037,533	992,388
Number of stockholders	2,800	2,500	2,300	1,700	1,600
Ore mined (tons)	202,000	175,000	139,000	130,000	108,000
Silver production (oz)	3,514,000	3,425,000	3,094,000	2,952,000	2,991,000
Ore reserve (tons)	1,112,000	1,025,000	1,015,000	1,019,000	671,000

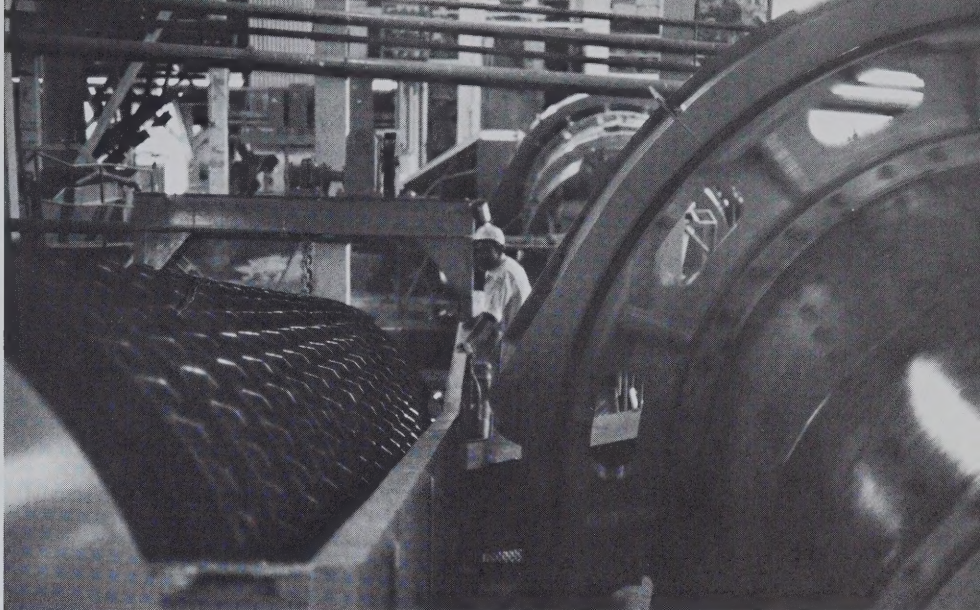


Samuel R. Milbank, Chairman and
Robert M. Reininger, President



Edward L. Vickers, Treasurer; Robert M. Reininger, President;
Homer S. Anderson, Vice President—Engineering

View of New Mill Installation, El Mochito Mine



EL MOCHITO MINE

Production increased for the twelfth consecutive year. Exploration and development work was encouraging; new ore zones encountered provide expanded development possibilities.

Phase III of the expansion program initiated in 1964 was completed during the second half of the year, with the new milling equipment starting up in August. Milling capacity has now been increased to 750 tons per day. Additional correlative construction projects and mine development are in progress to maintain higher tonnage production as well as to prepare for further increasing production targets.

El Mochito's expansion program in 1966 included \$844,522 of capital equipment. The comparative 1967 budget for capital projects is \$697,000. All categories of exploration and development footage increased.

The steady growth of Mochito is substantially the cumulative result of continually expanding exploration and development work and the reinvestment of capital in plant expansion and equipment. The lower incremental costs resulting from increased capacity make possible the profitable treatment of additional marginal ores which also offer expanded ore development potentials.

The report of Mr. William P. Morris, Vice President, Mining, set forth on pages 14 to 23, includes salient facts about El Mochito Mine for your information and interest.

GAS AND OIL ACTIVITIES

Alamo Petroleum Company
and
Rosario Production Company

Again in 1966 the operations of the Rosario Production Company continued to be the main activity of your Company in the petroleum field and the principal source of domestic revenue. Your Company, through its subsidiary Alamo Petroleum Company, participated in several exploration and development drilling prospects which resulted in three new gas and oil wells.

Income from our subsidiaries' petroleum activities in 1966 amounted to \$562,693, compared with the 1965 figure of \$626,537. The lower revenue is largely the result of the normal reservoir decline and also represents a reserve of \$33,750 for a possible decrease in the price received for gas. Expenses and intangible drilling costs during 1966 amounted to \$516,104, while \$434,624 was expended the previous year. Included in the 1966 expense is a provision of \$50,000 for a possible retroactive gas price adjustment.

OTHER MINING INTERESTS

Huautla Mine (Mexico)

This is a 100 ton per day milling operation with good-grade silver ore in Morelos, Mexico, in which we hold approximately one-half interest. Production started in May of 1966 and 19,586 metric tons of ore averaging a little over 20 ounces of silver per ton were milled during the year. The proceeds from this operation have been applied to an intensive exploration program in which about 4,500 feet of drifts, crosscuts, and raises were driven during 1966. Results of this program have been encouraging to date and at the year end proven and probable reserves were estimated to be 100,000 tons of ore averaging about 25 ounces of silver per ton. An expanded exploration and development program will be continued during 1967.

Bruneau Mine (Canada)

During the year 44,302 tons of ore grading about 1.43% copper and .02 ounces of gold per ton were milled at the nearby mill of the Merrill Island Mining Corp. Ltd. and the concentrates were exported into the world market. The proceeds from these sales have been used to repay pre-production expenses and to finance additional exploration and development work.

Leased mill facilities are not expected to continue to be available on a regular basis after May 1967, thus our efforts will be primarily directed at testing the deeper ore possibilities by diamond drilling.

Neptune Gold Mining Company (Nicaragua)

This gold mining company, in which your Company owns about a one-third interest had an operating loss of \$104,354 during 1966. The major problem continues to be relentless pressure of rising labor and supply costs against the arbitrarily fixed price of \$35.00 per ounce of gold which has prevailed for over 33 years. Most of the year's loss was due to extra exploration expenses incurred in the outlining of a substantial zinc, lead, gold, and copper deposit. Additional drilling and engineering studies are under way to evaluate in detail the economics of putting this new deposit into production.

EXPLORATION ACTIVITIES

Rosario Exploration Company and

Rosario Mining Explorations Ltd. (Canada)

Mining exploration activities expanded further in 1966. Geological studies, followed by geophysical and geochemical programs, resulted in our acquiring some interesting properties and claims. Our main targets have continued to be primarily silver ores and other metals.

In addition to our own exploration projects, we have increased our participation in joint venture exploration activities, particularly in Canada.

ACQUISITION PROGRAM

Your Company's acquisition program, designed to supplement our internal expansion, has resulted in an agreement to acquire the assets of Dixie Lime and Stone Company for 250,000 shares of Rosario stock. This acquisition was approved by the boards of directors of both companies and by the stockholders of Dixie, and will be submitted to Rosario's stockholders for their approval at the annual meeting to be held April 19, 1967. The proxy statement describing the proposed merger has been mailed to stockholders of record of March 17, 1967. The acquisition will give your company an established position in a domestic mining and processing company with demonstrated management capabilities and growth. This addition will complement our existing operations and provide a broader foundation for further growth both internally and through other acquisitions.

OUTLOOK

The outlook for 1967 is good. After a slow start in bringing the new mill facilities up to capacity through February 1967, current operating results are satisfactory. Barring substantial base metal price declines, we are hopeful that the upward trend your Company has experienced over the past five years will continue.

Increased production of silver and other metals are projected in our 1967 mining program. Aggressive exploration and acquisition work will continue.

Silver, our principal product, has been widely discussed and analyzed during the past year. The Free World industrial consumption of silver greatly exceeds the annual production. The shortage is nearing a critical stage as the United States Government stockpile continues its decline. Only Government sales by the Treasury from stockpile silver have deferred a rise in the price of silver. As an adequate supply of the new sandwich coins becomes available the Treasury can cease selling silver from its diminishing stores, thus removing the present arbitrary ceiling price on silver of \$1.293 per troy ounce. Ultimately, the price of silver must be increased to balance supply and demand. It is just a matter of time. Treasury statements notwithstanding, I still feel the next year will witness the start of silver's long-awaited upward price trend.

On behalf of the Board of Directors, I extend our thanks to our Rosario shareholders for their fine support. To all the capable people of the Rosario organization who have responded so splendidly to the increased demands of our expanding work, I extend deep appreciation. Their individual capabilities and good teamwork made possible the accomplishments of the past year and the encouraging outlook for the future.

Respectfully submitted,



March 21, 1967

ROBERT M. REININGER
President

Completing Oil Well, Rusk County, Texas

Exploration Prospecting, Honduras



CONSOLIDATED

ASSETS

	December 31	
	1966	1965
CURRENT ASSETS		
Cash, including time deposits	\$ 1,957,240	\$ 2,511,541
Inventories:		
Bullion and silver/lead and zinc concentrates—at estimated net realizable amounts	1,674,645	1,383,600
Copper ore and concentrates—at average cost	213,747	—
	1,888,392	1,383,600
Marketable securities—at cost and accrued interest (quoted market—1966, \$632,780; 1965, \$1,113,153)	323,391	473,663
Materials and supplies—at average cost	1,033,632	918,247
Prepaid expenses	76,889	59,124
TOTAL CURRENT ASSETS	5,279,544	5,346,175
 MINING AND OIL AND GAS INVESTMENTS—Note B	 2,555,761	 2,016,207
 MINING PROPERTY, PLANT, AND EQUIPMENT		
At cost	6,397,118	5,550,843
Less allowances for depreciation	3,360,952	3,013,443
	3,036,166	2,537,400
 OTHER ASSETS		
Miscellaneous receivables, deferred charges and sundry . . .	401,741	203,936
	\$11,273,212	\$10,103,718

See notes to financial statements.

ROSARIO MINING COMPANY

Subsidiaries

BALANCE SHEET

LIABILITIES

	December 31	
	1966	1965
CURRENT LIABILITIES		
Accounts payable	\$ 348,890	\$ 250,175
Accrued expenses	595,279	517,432
Honduras and United States income taxes	1,395,368	1,345,482
TOTAL CURRENT LIABILITIES	2,339,537	2,113,089
STOCKHOLDERS' EQUITY		
Capital Stock, par value \$1.00 per share, authorized 2,000,000 shares, issued 1,147,813* shares in 1966 and 1,115,192* shares in 1965, less 7,812 and 8,570 shares respectively held in treasury—Note C	1,140,001	1,106,622
Capital surplus—Note D	4,984,912	3,869,145
Retained earnings	2,808,762	3,014,862
	8,933,675	7,990,629
	<u>\$11,273,212</u>	<u>\$10,103,718</u>

* Including shares issued as stock dividends the following January.

NEW YORK AND HONDURAS ROSARIO MINING COMPANY
and Subsidiaries

STATEMENT OF CONSOLIDATED INCOME

	Year ended December 31	
	1966	1965
PRODUCTION INCOME	\$9,728,752	\$9,288,751
COSTS AND EXPENSES		
Cost of production excluding depreciation and depletion . . .	5,527,064	5,218,341
Depreciation and depletion	464,760	369,688
Administrative and general expenses	440,931	395,119
Exploration expenses	606,615	519,406
	<u>7,039,370</u>	<u>6,502,554</u>
	2,689,382	2,786,197
OTHER INCOME		
Interest and dividends	79,170	68,300
Sundry	127,114	104,160
	<u>206,284</u>	<u>172,460</u>
	2,895,666	2,958,657
HONDURAS INCOME TAXES	<u>1,220,000</u>	<u>1,171,000</u>
Income before extraordinary items	1,675,666	1,787,657
NET GAIN ON SALE OF SECURITIES (no applicable income taxes)	<u>341,437</u>	<u>44,132</u>
NET INCOME	<u>\$2,017,103</u>	<u>\$1,831,789</u>

PER SHARE

Income before extraordinary items	\$ 1.47	\$ 1.57
Net gain on sale of securities	.30	.04
Net income	1.77	1.61
Cash dividends paid	.95	.87
Stock dividends	3%	3%

See notes to financial statements.

NEW YORK AND HONDURAS ROSARIO MINING COMPANY

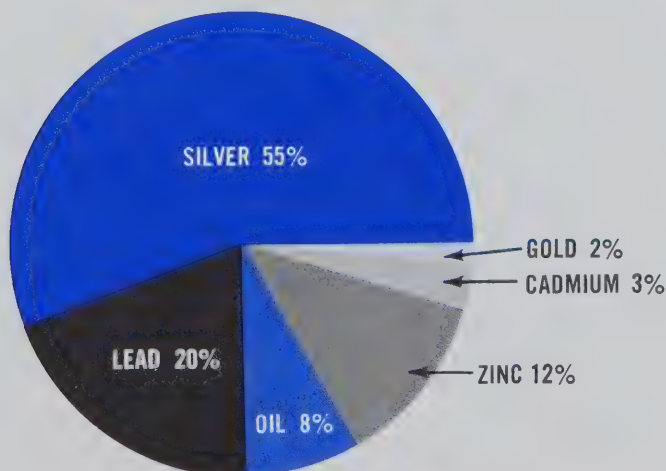
and Subsidiaries

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

	Year ended December 31	
	1966	1965
BALANCE AT BEGINNING OF YEAR	\$3,014,862	\$3,024,237
Net income for the year	2,017,103	1,831,789
Excess of cost over par value of treasury stock sold under the stock option plan	2,889	9,246
	<u>5,034,854</u>	<u>4,865,272</u>
Less dividends declared:		
Cash dividends—1966, \$.95 per share; 1965, \$.87 per share	1,052,082	967,210
Stock dividends—3% in each year	1,174,010	883,200
	<u>2,226,092</u>	<u>1,850,410</u>
BALANCE AT END OF YEAR	<u>\$2,808,762</u>	<u>\$3,014,862</u>

See notes to financial statements.

SOURCE OF REVENUE



NEW YORK AND HONDURAS ROSARIO MINING COMPANY
and Subsidiaries

**CONSOLIDATED STATEMENT OF SOURCE
AND APPLICATION OF FUNDS**

	<u>Year Ended December 31</u>	
	<u>1966</u>	<u>1965</u>
WORKING CAPITAL AT BEGINNING OF YEAR	\$3,233,086	\$3,292,166
Funds provided by:		
Operations:		
Net income for the year	2,017,103	1,831,789
Depreciation and other non-cash charges	816,099	514,456
Total funds from operations	<u>2,833,202</u>	<u>2,346,245</u>
Sale of capital stock under option plan	21,053	28,118
	<u>2,854,255</u>	<u>2,374,363</u>
Funds applied:		
Capital programs:		
Mochito mine plant and equipment, net	837,786	600,274
Mining and oil and gas ventures	955,266	496,170
Preproduction costs—Canadian mining operations, net . . .	2,923	331,040
Other property and equipment	58,444	4,520
	<u>1,854,419</u>	<u>1,432,004</u>
Increases in other assets	197,804	4,800
Payments to stockholders:		
Cash dividends	1,052,082	967,210
Cash in lieu of fractional shares	43,029	29,429
	<u>3,147,334</u>	<u>2,433,443</u>
WORKING CAPITAL AT END OF YEAR	<u>\$2,940,007</u>	<u>\$3,233,086</u>

NEW YORK AND HONDURAS ROSARIO MINING COMPANY

and Subsidiaries

NOTES TO FINANCIAL STATEMENTS

December 31, 1966

Note A

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The accounts of foreign operations, principally Honduras, have been translated at appropriate rates of exchange.

Note B

Mining and oil and gas investments at December 31, 1966 consisted of the following:

Mining—at cost less \$467,369 allowances:	
Mexican silver mining properties . . .	\$ 855,003
Canadian copper mining operation—preproduction costs	347,481
Investments in other mining ventures	365,110
	<u>1,567,594</u>
Oil and gas—principally at cost less \$121,890 allowances:	
Rosario Production Company—75% participation in a joint venture which operates oil and gas wells (underlying equity \$273,000) . .	\$289,152
Other working interests . . .	544,139
Royalty interests	154,876
	<u>988,167</u>
	<u>\$2,555,761</u>

The Canadian mining operation is in the development stage and proceeds from a small amount of production which commenced early in 1966 were credited to preproduction costs. When the mine goes into the production stage, preproduction costs will be amortized on the ore reserve method or straight line method over a five year period, whichever is greater.

Note C

Officers and employees of the Company held options to purchase 10,217 shares at January 1, 1966 and 8,831 shares at December 31, 1966 of capital stock at prices ranging from \$10.44 to \$28.28 per share, representing 100% of the market price at date of grant. During 1966, options for 1,358 shares were exercised, options for 276 shares were cancelled and stock options were increased by 248 shares as a result of the 3% stock dividend issued in January 1967. All options granted will expire on or before December 11, 1967. No options were available for grant at December 31, 1966.

Note D

Changes in capital surplus during 1966 were as follows:

Balance at January 1, 1966	\$3,869,145
Excess of market over par value of capital stock issued January 1967 as a 3% stock dividend	1,098,961
Credits arising from capital stock sold under the stock option plan	16,806
Balance at December 31, 1966	<u>\$4,984,912</u>

Note E

On November 18, 1966 the Company entered into an agreement to acquire substantially all the assets and assume all the liabilities of Dixie Lime and Stone Company, a miner, processor and distributor of granite and limestone products and chemical lime in Florida and Georgia, in exchange for 250,000 shares of the Company's capital stock. Subject to stockholder approval, the Company anticipates that the acquisition will be completed in the first half of 1967.

ACCOUNTANTS' REPORT

To the Stockholders

NEW YORK AND HONDURAS ROSARIO MINING COMPANY
New York, N. Y.

We have examined the consolidated financial statements of New York and Honduras Rosario Mining Company and subsidiaries for the year ended December 31, 1966. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures at the New York and mine offices as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and retained earnings present fairly the consolidated financial position of New York and Honduras Rosario Mining Company and subsidiaries at December 31, 1966, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying statement of source and application of funds presents fairly the information shown therein.

ERNST & ERNST

New York, N. Y.
March 3, 1967

NEW YORK AND HONDURAS ROSARIO MINING COMPANY

and Subsidiaries

MARKETABLE SECURITIES

December 31, 1966

	<u>Number of Shares</u>	<u>Cost</u>	<u>Market</u>
Campbell Chibougamau Mines Ltd.	56,000	\$ 82,460	\$322,000
ECL Industries Ltd.	3,000	73,594	59,625
Helmerich and Payne	2,500	29,276	24,062
Matthiessen & Hegeler Zinc Company	5,062	55,972	48,088
Medusa Portland Cement	2,500	60,535	56,563
Shell Oil Company	300	6,936	18,000
Mobil Oil Corporation	800	6,037	37,400
Standard Oil Company of California	589	3,628	35,417
Standard Oil Company (New Jersey)	500	4,953	31,625
TOTAL MARKETABLE SECURITIES		<u>\$323,391</u>	<u>\$632,780</u>

MINING PROPERTY, PLANT, AND EQUIPMENT

	<u>1966</u>	<u>1965</u>
PARENT COMPANY		
El Mochito Mine:		
Buildings and equipment	\$5,709,210	\$4,948,520
Automotive	270,979	252,254
Construction in progress	154,761	146,345
Real estate	15,336	15,336
Mineral property (fully amortized)	138,635	138,635
TOTAL EL MOCHITO MINE	<u>6,288,921</u>	<u>5,501,090</u>
New York Office	40,059	39,499
TOTAL PARENT COMPANY	<u>6,328,980</u>	<u>5,540,589</u>
All other locations	68,138	10,254
	<u>\$6,397,118</u>	<u>\$5,550,843</u>

NEW YORK AND HONDURAS ROSARIO MINING COMPANY
and Subsidiaries

OIL AND GAS INVESTMENTS

		Year Ended December 31, 1966 (1)	
	Investments, Less Allowances	Income From Oil and Gas Ventures	Costs and Expenses, Including Intangible Drilling Costs
Oil and gas—principally at cost less \$121,890 allowances:			
Working interests:			
Rosario Production Company—75% owned, at cost plus equity in undistributed earnings (underlying equity \$273,000)	\$ 289,152	\$437,019	\$222,062
Southwest Pampa Dolomite Unit	248,523	20,399	17,409
All other	295,616	88,186	271,452
	<u>833,291</u>	<u>545,604</u>	<u>510,923</u>
Royalty interests	154,876	17,089	5,181
	<u>\$ 988,167</u>	<u>\$562,693</u>	<u>\$516,104</u>

(1) Included in the Company's consolidated earnings for 1966.

MINING VENTURES

	Stock, Advances, Debentures, etc.
Mining—at cost less \$467,369 allowances:	
Mexican silver mining properties (49% stock ownership—underlying equity \$820,000)	\$ 855,003
Neptune Gold Mining Co. (33% stock ownership—underlying equity \$610,000)	62,647
Compañía Minera Los Andes (16% stock ownership)	124,231
Canadian copper mining operations—preproduction costs	347,481
Sundry	178,232
	<u>\$1,567,594</u>

REPORT OF OPERATIONS

EL MOCHITO MINE, HONDURAS

February 14, 1967

The following report covers the operations of El Mochito Mine in Honduras for the fiscal year ending December 31, 1966.

GENERAL

There were no major interruptions in operations. Our expansion program in the mine and concentrating plant was completed successfully in August. Since this date we have mined and processed ores at a greater rate. Production of silver, gold, lead, and zinc in Doré bullion and in flotation concentrates increased. Tonnage of ore processed increased 16 per cent.

The mine produced 202,147 tons of ore and processed 201,989 tons containing 19.5 ounces of silver per ton, 0.0245 ounces of gold per ton, 6.2 per cent lead, and 6.7 per cent zinc.

Differential separation of lead and zinc minerals into respective concentrates improved, but overall per cent recoveries of silver, gold, lead, and zinc were not as high as recoveries in 1965 due to variations in the character of the ore treated and to difficulties encountered in balancing the mill circuits after adding the new mill equipment.

Unit costs per ton mined and milled were reduced by producing a greater tonnage of ore, even though the costs of materials and supplies increased.

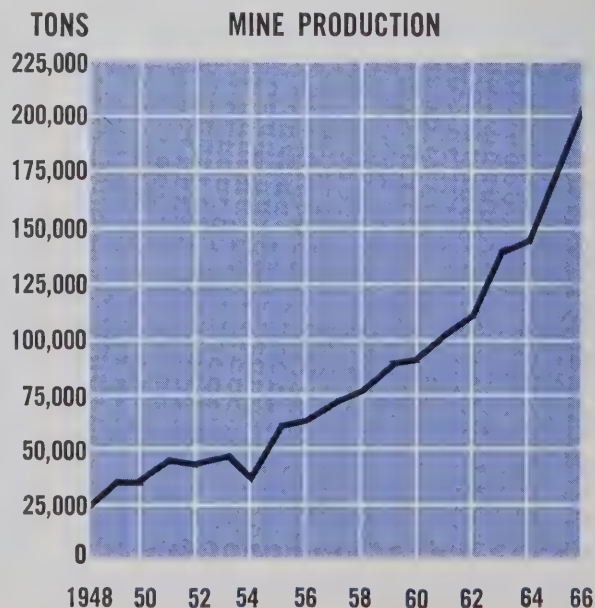
Exploration and development work was rewarding in that ore bodies were discovered in the deeper limestone formation in the Níspero, Porvenir, and Yojoa areas.

Our relations with our employees were good.

ORE RESERVES

Assured and probable ore reserves on December 31, 1966 were 1,111,747 tons. Average assays of the total reserves are 17.1 ounces of silver per ton, 0.018 ounces of gold per ton, 7.40 per cent lead, and 7.34 per cent zinc.

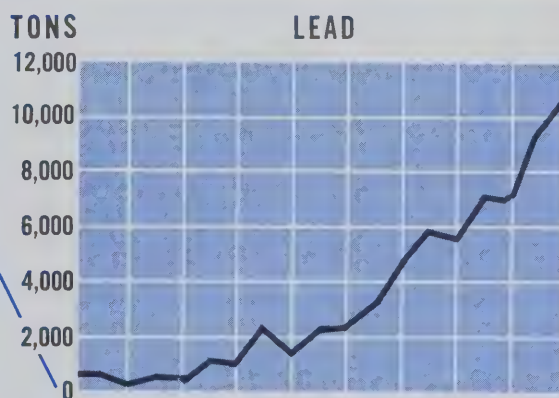
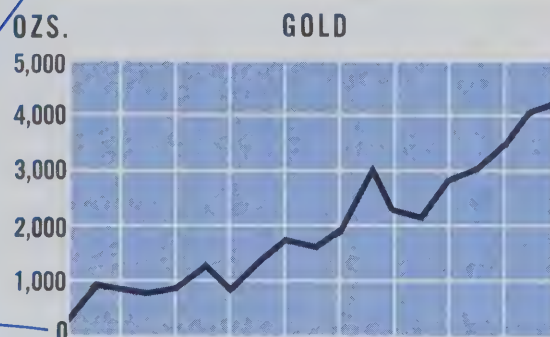
William P. Morris, Vice President Mining and
General Manager, El Mochito Mine



EL MOCHITO MINE

PRODUCTION RECORD 1948-1966

Silver, Gold, Lead, Zinc



COMPARATIVE SUMMARY — ORE RESERVES

	Tons	Average Grade				Total Ounces	
		Ag Ozs/Ton	Au Ozs/Ton	% Lead	% Zinc	Ag	Au
ASSURED:							
December 31, 1966.....	578,719	18.8	0.019	7.89	7.70	10,894,380	11,150
December 31, 1965.....	504,879	20.6	0.022	8.13	8.22	10,393,605	11,349
Increase (Decrease)	73,840	(1.8)	(0.003)	(0.24)	(0.52)	500,775	(199)
PROBABLE:							
December 31, 1966.....	533,028	15.3	0.016	6.87	6.95	8,139,495	8,450
December 31, 1965.....	520,182	16.7	0.017	7.06	7.15	8,697,378	8,817
Increase (Decrease)	12,846	(1.4)	(0.001)	(0.19)	(0.20)	(557,883)	(367)
GRAND TOTAL:							
December 31, 1966.....	1,111,747	17.1	0.018	7.40	7.34	19,033,875	19,600
December 31, 1965.....	1,025,061	18.6	0.020	7.59	7.67	19,090,983	20,166
Increase (Decrease)	86,686	(1.5)	(0.002)	(0.19)	(0.33)	(57,108)	(566)

MINE PRODUCTION

The mine produced 192,963 tons of ore from stoping and 9,184 tons of ore from exploration and development. Total production was 202,147 tons.

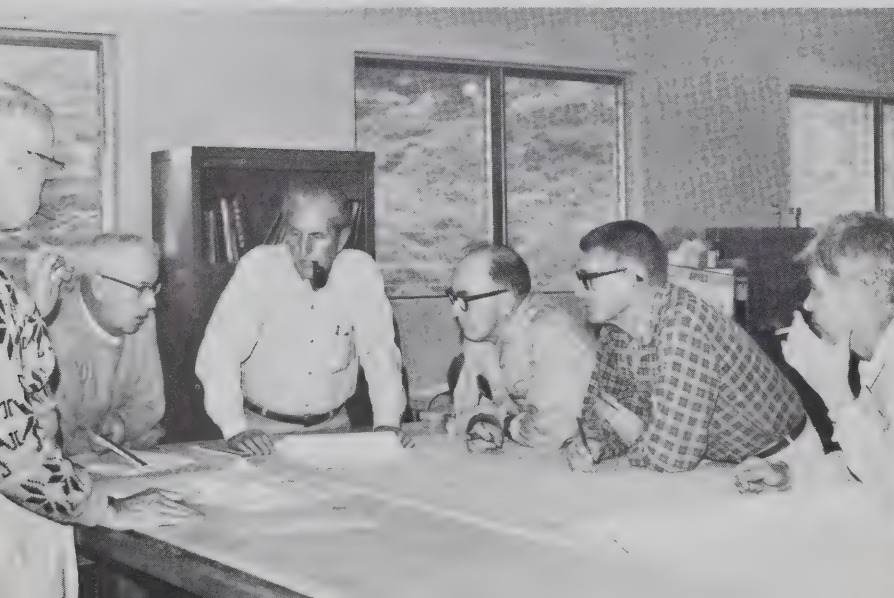
EXPLORATION AND DEVELOPMENT

Exploration and development advances were again increased in line with expanded production.

Comparison of linear advances in feet and slabbing in cubic feet:

Year	Drifts and Crosscuts	Raises, Shafts and Winzes	Total Linear Feet	Slabbing Cu. Ft.	Diamond Drilling Feet	Long Hole Percussion Drilling Ft.
1966	15,947	7,432	23,379	84,530	34,083	112,945
1965	15,849	6,410	22,259	65,600	27,921	108,908
Increase	98	1,022	1,120	18,930	6,162	4,037

Planning Session at El Mochito: Vice President Morris, Manager Planning H. J. Emdin, R. M. Reininger, H. S. Anderson, Chief Engineer W. B. Spear, Mine Superintendent J. E. Lewis



Geological Planning: Mine Geologist M. Seaward, Vice President—Exploration David L. Moore



Surface

Exploration below surface anomalies at the Palmar prospect was continued by diamond drilling from the face of the adit we completed last year. No commercial ore bodies have been encountered in seven diamond drill holes completed to date.

More detailed information on anomalies is being obtained by additional geophysical and geochemical surveys.

650 Level

Mineralized structures were found with advances and drill holes in the Níspero area. The previously known marginal ore body below Crosscut 7920 is being delimited with long holes drilled with percussion drills from the 7060 sub level.

Crosscut 9247 was advanced 264 feet northwest of the Plomo No. 2 ore body to provide suitable drill stations for exploring this area. Exploration work to date has been in barren limestone.

We continued our exploration of the area beneath surface anomalies north of Raíces Tunnel with an advance of 407 feet in Crosscut 0737 and two diamond drill holes and 119 long percussion drill holes drilled from this crosscut. Isolated pockets of oxide mineralization were found but no commercial ore bodies were encountered.

The Santa Fe No. 1 ore body was traced to this level, but no additional exploration work was done on the Santa Fe No. 2 ore body on this level. Crosscuts 0400 and 0028 were advanced 246 feet and 26 feet respectively from Crosscut 0737 to connect with Raise 0259 advanced from the 850 level in the ore body.

Low grade mineralized areas were located with long percussion drill holes drilled from Crosscuts 2360, 2365, 2397, and the Raices Tunnel in the El Salvador area.

No new ore discoveries were made in the Caliche area in the advance of Crosscut 17985 nor in horizontal Diamond Drill Hole No. 1310.

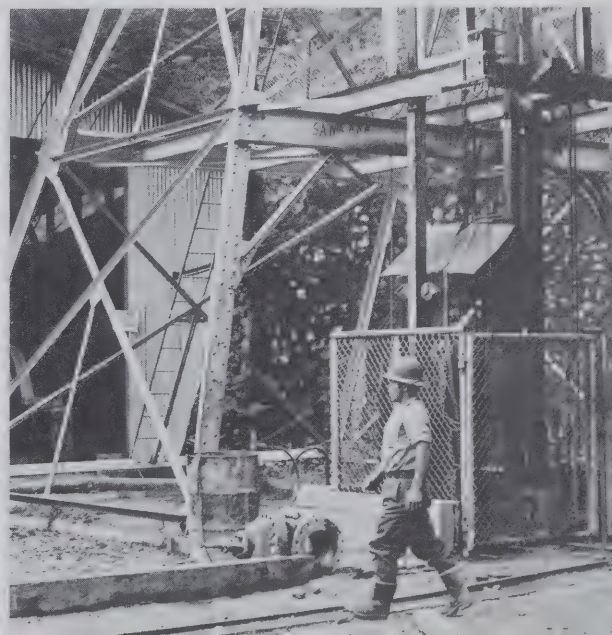
725 Level

The San Jorge ore body was explored and delimited with 37 long holes drilled with percussion drill from Crosscuts 9283 and 9818.

Ore Train Leaving Portal



Supply Shaft



775 Level

Isolated pockets of low grade mineralization were cut in 29 long holes drilled from Crosscuts 12410 and 12380 in the El Salvador area.

850 Level

The search for the downward extension of the Porvenir No. 1 and 2 ore bodies was continued by advancing Crosscut 8215 for 95 feet in a southwesterly direction on mineralized limestone shale contact and preparation of a diamond drill station in Raise 8320.

Beneath the Porvenir No. 3 ore body, Raises 8101 and 8109 were advanced on low grade mineralization from Crosscut 8105.

The southwest extension of the San Jorge ore body was explored with an advance of 625 feet in Crosscut 9350 and preparation of a diamond drill station at the face of the crosscut for future drilling. Silver values were encountered in narrow structures cutting across the crosscut and in an iron-stained dyke material but no commercial ore was encountered.

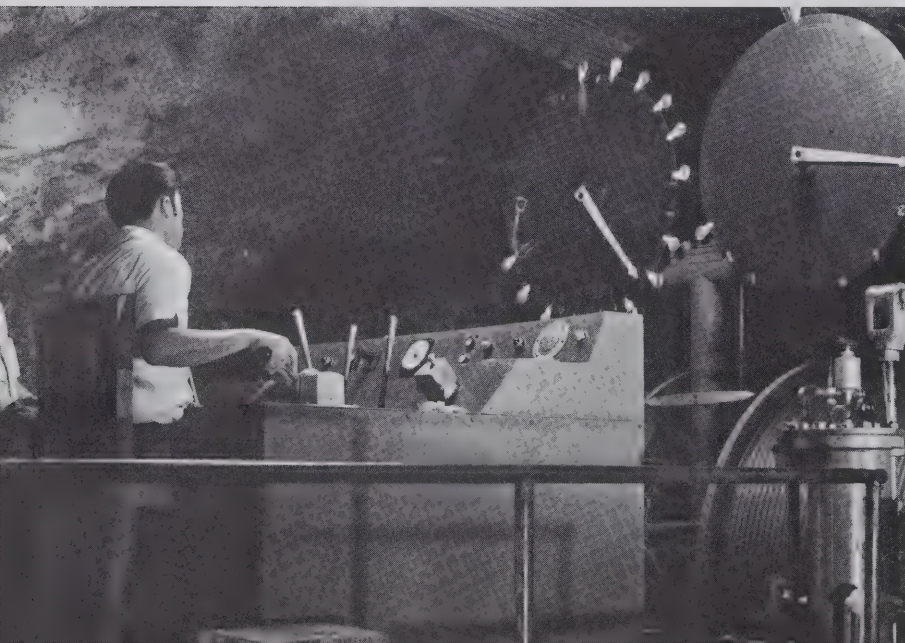
Exploration of a mineralized area encountered by Diamond Drill Hole 1034 north of Shaft No. 3 and east of the Plomo No. 2 ore body was begun. Forty feet of sulphide ore and 90 feet of sub-marginal ore was encountered in Crosscut 9388 and Raise 9476. Pockets of ore were cut on both sides of the crosscut in long percussion drill holes.

We continued to explore and delimit the Santa Fe ore bodies Nos. 1 and 2 on this level by crosscutting, raising and drilling long holes from Crosscut 9963. Sixteen feet of oxide and sulphide ore in the No. 1 ore body was encountered in Crosscut 9963, and Raise 0259 was advanced in the ore body to the 650 level. Eighty-six long holes were drilled with a percussion drill on both sides of Crosscut 9963 to trace the limits of ore on the level. A search for the downward extension of the No. 2 ore body will be made from the face of Crosscut 9963.

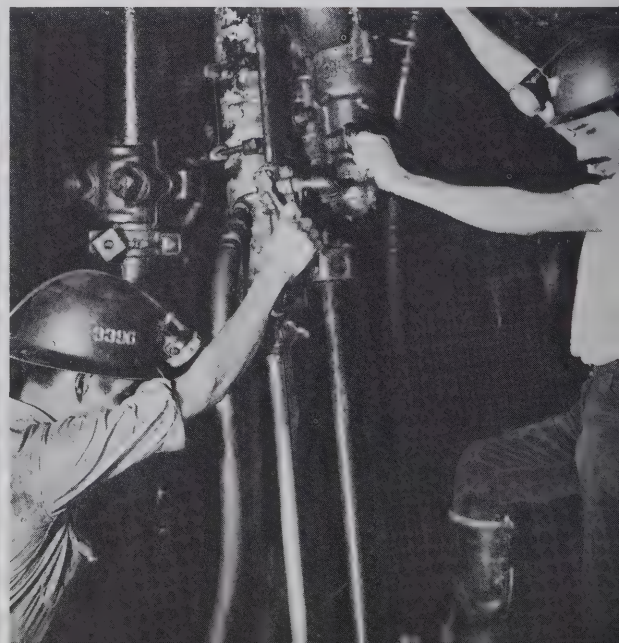
900 Level

Additional oxide and sulphide ore zones were located and explored by crosscutting, raising, and diamond drilling in the El Salvador area but mining of these zones has been postponed until Shaft No. 5 has been sunk to the 1225 level and equipped. An oxide ore zone approximately 32 feet in length was encountered in advances of Crosscuts 12366 and 12085, and explored for 120 feet above

Shaft No. 3 Hoist Control



Diamond Drilling



the level in Raise 12065. Small pockets of oxide ore were encountered in Crosscut 12287, and good ore values were encountered in narrow structures cut in Diamond Drill Holes 1271 and 1274 drilled from the face of this crosscut. An advance in Crosscut 12380 encountered 15 feet of sulphide ore, and pockets of ore were found above the level in Raises 12372 and 12380. Good grade ore in narrow structures was cut in fifteen diamond drill holes drilled from Crosscut 12380.

975 Level

Ore encountered in Crosscut 9510 along a contact of limestone and dyke extended the San Jorge ore body to the northwest.

Long drill holes drilled on both sides of Crosscuts 9650 and 9714 with percussion drill encountered good values of silver southwest of the San Jorge ore body. Additional exploration work is planned in this area.

Exploration of the Santa Fe ore bodies on this level was begun with an advance of 409 feet in Crosscut 9974 toward the ore zones northeast of Shaft No. 2.

1100 Level

Downward extensions of the Porvenir, Yojoa and Nispero ore bodies were encountered in crosscuts and diamond drill and percussion drill holes.

Sulphide ore with low silver values was cut in an advance of Crosscut 8120 beneath the known Porvenir ore bodies. Diamond Drill Holes 1308 and 1317 encountered sulphide ore below this level in shales and the deeper limestone.

Advance in Crosscut 7759 exposed 80 feet of sulphide ore below the Yojoa ore body. Diamond drill holes traced the ore above and below this level.

Eight diamond drill holes and an advance of 645 feet in Crosscut 9420 successfully located a marginal sulphide ore zone beneath the Nispero ore body. Marginal ore has been exposed for 100 feet in Crosscut 9420. Long holes are being drilled on both sides of the crosscut with a percussion drill and additional crosscuts will be advanced to determine the limits of the ore zone.

1225 Level

Exploration of the Porvenir, Yojoa, and Nispero ore bodies on this level was begun. Crosscut 9421 was advanced 619 feet northwest from Shaft No. 3 toward the Porvenir and Yojoa ore bodies. In the

Geological Sampling



advance two mineralized structures were encountered and partially explored. A pocket of ore was slabbled out at Crosscut 9230, and Crosscut 9004 exposed a strong sulphide ore zone 25 feet in length.

Exploration Crosscut 9440 to the east toward the Palmar surface prospect was continued for 1,070 feet and a turn off toward Shaft No. 5 (Crosscut 11855) was begun. No mineralization was encountered in the advance, but two long holes, Nos. 2244 and 2248, drilled with a percussion drill to the north of the crosscut encountered silver values of ore grade. Two vertical and three horizontal diamond drill holes were advanced to explore for ore. Vertical hole No. 1192 encountered an ore zone at the 1685 feet elevation but the extent of ore is not known.

Areas southwest and west of the San Jorge ore body were explored by advancing Crosscut 0045 for 357 feet and drilling Diamond Drill Hole 1277 in a westerly direction from the face of the crosscut. No ore was encountered but our work in this area is not complete.

Sixteen long holes were drilled on both sides of Crosscut 0025, south of the Nueva ore body, but no additional ore was found.

1350 Level

We continued to explore and develop the Main, San Jorge, Concepción, and Nueva ore bodies. Advances in Crosscuts 0315 and 0055 for 290 feet and 146 feet respectively encountered additional ore to the south and southeast of previously known ore. Diamond drill holes from Crosscuts 0298, 0424, 0454, 0055, 9970, 0052, 9872, 9860, 0315, 9444, 0197, and 0393 located downward extensions of ore bodies. Long holes drilled with percussion drills on both sides of Crosscuts 0315, 9444, 0454, and 9780 encountered ore and defined limits of the ore bodies.

1600 Level

Shaft No. 3 was sunk 81 feet full size and timbered.

1725 Level

Shaft No. 3 station was completed. Crosscuts 9423 and 9437 were advanced 109 feet to the west and 206 feet to the east of the station respectively. The permanent pump station is being excavated and raises for ore and water passes are being advanced. A water door was installed in Crosscut 9437.

Shaft No. 3 was completed to this level and sunk to the 1755 foot elevation.

Underground Mapping



Tunneling



DIAMOND DRILLING

We continued to use diamond drills effectively in locating and defining ore zones. Our drilling program was increased 22 per cent to 34,083 linear feet.

PERCUSSION DRILLING

Long holes drilled with percussion drills into the walls along the crosscuts and in the stope walls were effective in locating ore zones. We drilled 112,945 linear feet from crosscuts and 2,545 linear feet from stopes.

MINE GENERAL

Additional men were employed and additional equipment added to the mine to enable us to set a new production record of 202,147 short tons of ore. Linear advances in exploration and development were also increased to 23,379 feet.

Shaft Nos. 2, 3, and 5 were operated. Shaft No. 2 operated between the Zero and 1225 levels until June. After this date it operated to the 1350 level. A larger hoist was transferred from Shaft No. 3 to this shaft on July 4th to provide additional hoisting capacity. Shaft No. 3 was sunk 102 feet to the 1755 foot elevation during the year while it was operating between upper levels.

Ammonia nitrate (AN-FO) explosive was successfully used in all our stopes and we are now testing it in crosscuts.

Capacities of pump stations on the 975 and 1350 levels were increased to provide a greater margin of safety in operations.

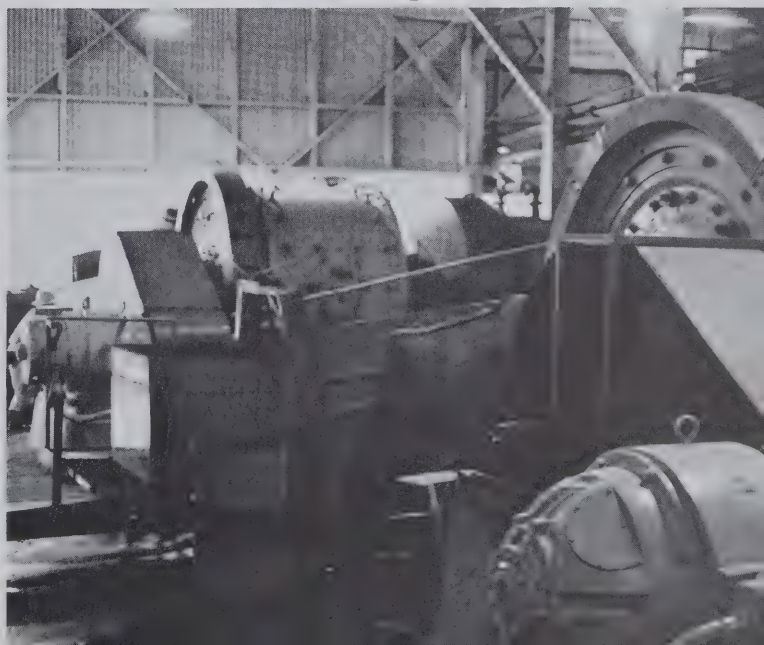
MILL GENERAL

The third phase of our expansion program was completed successfully during the second half of the year and all equipment additions are operating satisfactorily.

Fine Ore Bins



Grinding Unit



Average treatment rate for 1966 was 610 tons per operating day. With the new equipment additions the mill has a capacity of 750 tons per operating day.

By producing a minus $\frac{5}{8}$ " product the capacity of the coarse crushing plant has been increased to 55 tons per hour.

Production of silver, gold, lead, and zinc metals in Doré bullion and flotation concentrates was increased 2.6, 4.5, 14.8, and 10.9 per cent respectively by processing a greater tonnage of ore.

Silver recovery was 89.0 per cent, gold recovery was 86.5 per cent, lead recovery was 85.3 per cent, and zinc recovery was 89.2 per cent. The decline was attributed to mill circuit balancing difficulties and to variations in ore treated.

A comparison of mineral content in ores processed and per cent recovery of metals for the years 1965 and 1966 is as follows:

Metal	Year 1966			Year 1965		
	Assay		% Recovery	Assay		% Recovery
Silver	19.5	ozs./ton	89.0	21.6	ozs./ton	91.2
Gold	0.0245	ozs./ton	86.5	0.0261	ozs./ton	90.1
Lead	6.2%		85.3	6.1%		87.4
Zinc	6.7%		89.2	7.0%		90.1

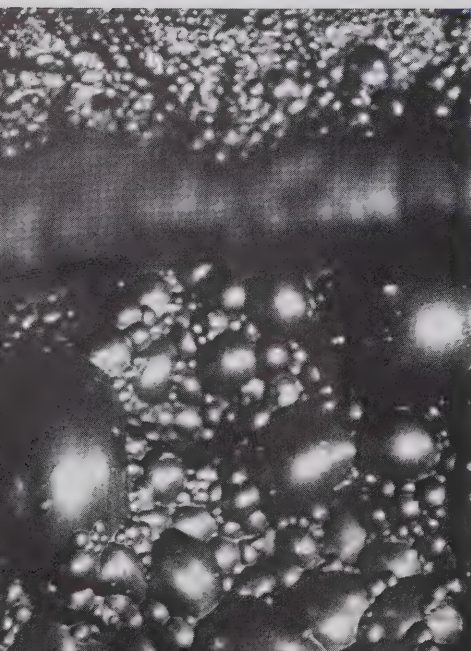
CONCENTRATE AND BULLION PRODUCTION

	Silver Ozs.	Gold Ozs.	Lead Tons	Zinc Tons
Lead Concentrate	2,463,693	2,825	10,174	1,937
Zinc Concentrate	696,346	914	538	10,185
Doré Bullion	353,562	535		
Total	3,513,601	4,274	10,712	12,122

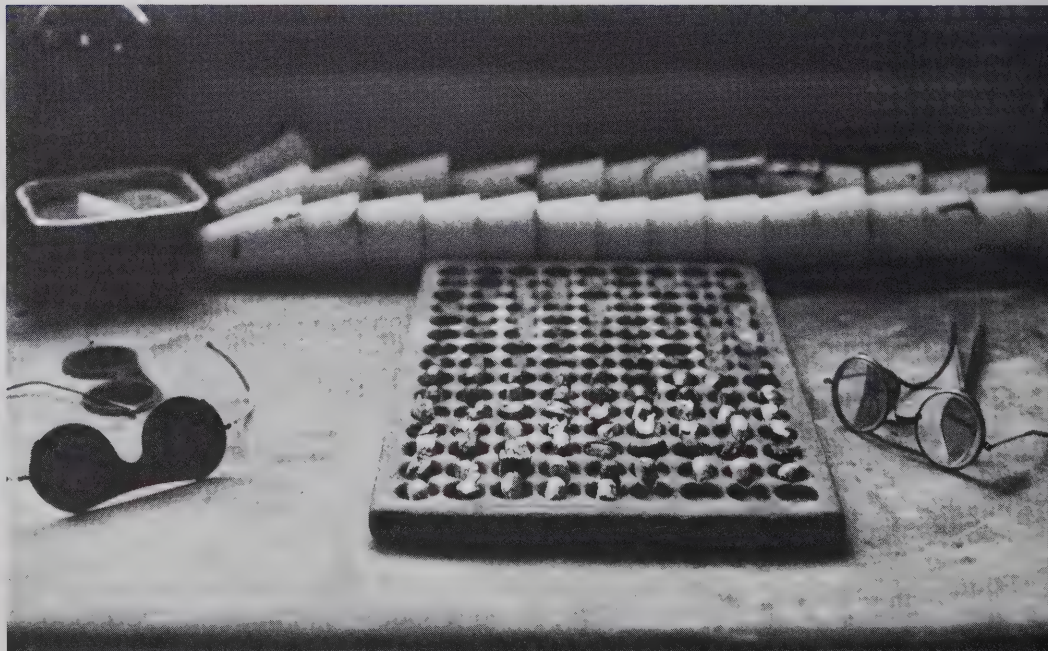
TONS OF ORE PROCESSED THROUGH DECEMBER 31, 1966

Years 1948/1965	Year 1966	Total
1,338,282	201,989	1,540,271

Flotation Froth



Assaying



PRODUCTION OF SILVER, GOLD, LEAD, AND ZINC THROUGH
DECEMBER 31, 1966

	<u>Years 1948/1965</u>	<u>Year 1966</u>	<u>Total</u>
Ounces of Silver.....	37,227,046	3,513,601	40,740,647
Ounces of Gold.....	33,886	4,274	38,160
Tons of Lead.....	58,757	10,712	69,469
Tons of Zinc.....	46,147	12,122	58,269

CONSTRUCTION

Major construction and installation projects completed include: forty-five family houses, additional concentrate storage building in Puerto Cortés, additions to garage and fence, new hospital, 2000 C.F.M. compressor, new 53" x 36" hoist for Shaft No. 3, remodeled old hospital into a store, major mill additions of the expansion program, staff house, single men's apartment, additions to domestic water lines, additions to lighting in camps, and additional sanitary services in camps.

OFFICERS, DIRECTORS, AND STAFF

I wish to express my appreciation to the officers, Board of Directors, the New York office staff, and my loyal staff for their assistance and cooperation.

Respectfully submitted,



*Vice President, Mining
and General Manager*



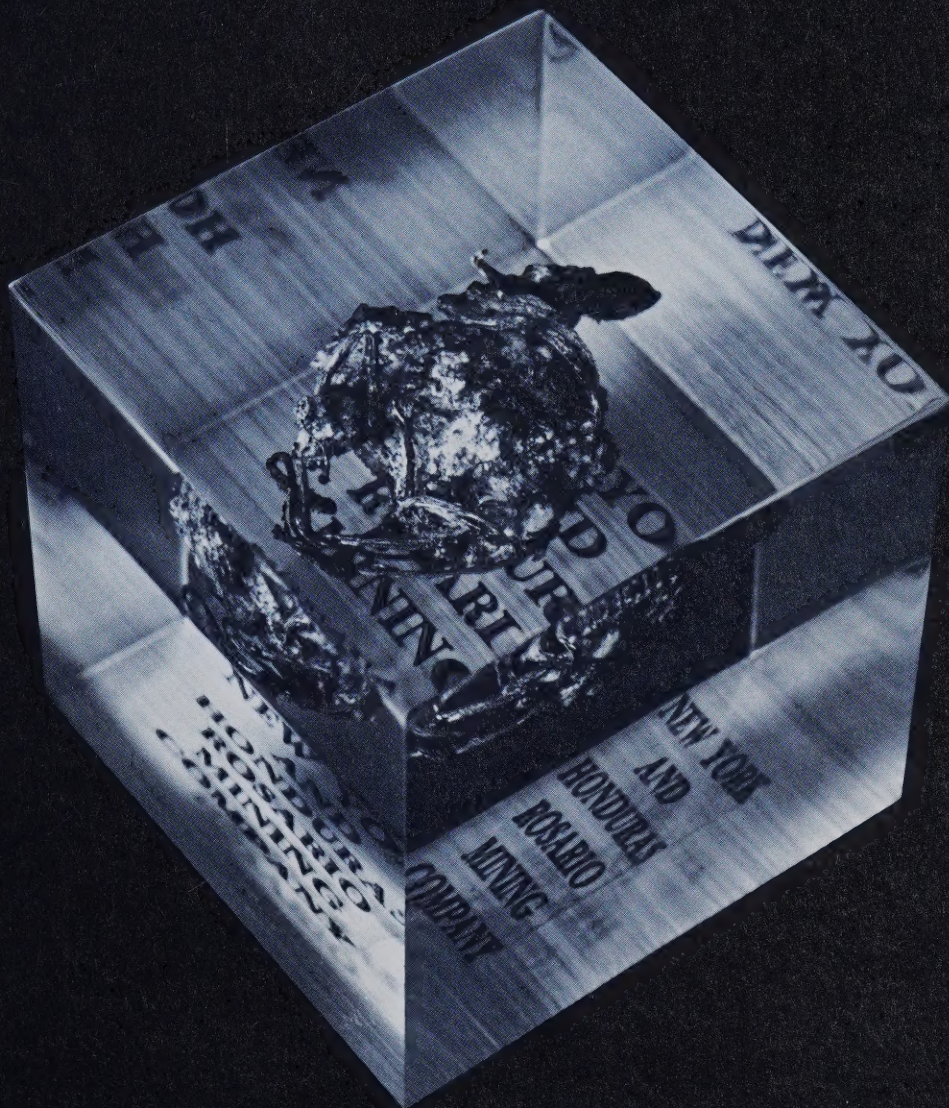
Pouring Silver Bullion

EL MOCHITO MINE

OPERATING STATISTICS

Years Ending December 31, 1966 and December 31, 1965

	<u>1966</u>	<u>1965</u>	<u>Increase (Decrease)</u>
Number of employees	946	892	54
Tons of ore mined	202,147	174,722	27,425
Tons of ore milled	201,989	174,292	27,697
Average tons milled per day (365)	553	478	75
Average grade of ore delivered to the mill per ton			
Ounces of silver	19.5	21.6	(2.1)
Ounces of gold	.025	.026	(.001)
Per cent lead	6.2	6.1	0.1
Per cent zinc	6.7	7.0	(0.3)
Total metal production			
Ounces of silver	3,513,601	3,425,459	88,142
Ounces of gold	4,274	4,090	184
Pounds of lead	21,424,000	18,662,000	1,762,000
Pounds of zinc	24,244,000	21,854,000	2,390,000
Pounds of cadmium	217,245	193,800	23,445
Mill recovery			
Silver	89.0%	91.2%	(2.2)
Gold	86.5	90.1	(3.6)
Lead	85.3	87.4	(2.1)
Zinc	89.2	90.1	(0.9)
Average market price per			
Ounce of silver	\$ 1.293	\$ 1.293	\$ —
Ounce of gold	35.00	35.00	—
Pound of lead	.145	.160	(.015)
Pound of zinc	.145	.145	—
Pound of cadmium	2.45	2.40	.05



Mounted specimen of native wire
silver from El Mochito Mine

